



Director of
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Intelligence

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USSR:

Central Committee Advances Party Reform

The Soviet party Central Committee yesterday spelled out the role of the six party commissions created in September and named their memberships. [REDACTED]

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[REDACTED] These commissions, each with 20 to 25 members drawn from the Central Committee or the Central Auditing Commission, will meet at least once every quarter and will be responsible for drafting policy papers for the Politburo. [REDACTED]

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As scheduled, this plenary meeting of the Central Committee also approved revised legislative drafts to be submitted to today's Supreme Soviet session. It heard reports from General Secretary Gorbachev on political restructuring and from Premier Ryzhkov outlining an economic plan for the period to the year 2005. Texts of the Gorbachev and Ryzhkov speeches were not immediately available but are to be published, possibly today. [REDACTED]

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The participants did not directly address the problem of interethnic relations but noted that preparations should be intensified for a future Central Committee meeting on that issue. The Central Committee did expel three of its members—all had been indicted for bribery—but made no Politburo-level personnel change. [REDACTED]

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[REDACTED] The six commissions in effect supersede the Secretariat, which had been managed by "Second Secretary" Ligachev, and will help Gorbachev shift authority from the Central Committee apparatus to elected party officials. The commissions generally involve officials with jobs functionally relevant to a commission's task and appear to represent a mix of reformist and conservative views. [REDACTED]

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Gorbachev nevertheless has prominent supporters on each commission. He may be able to manipulate the new structure more successfully than he has handled the Secretariat. [REDACTED]

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CENTRAL
AMERICA:

Efforts To Revive Peace Accord

Costa Rica's proposal for a UN-supervised verification team may be endorsed by the region's foreign ministers when they meet tomorrow in Mexico City. [REDACTED] b3

Honduras and Nicaragua view the Costa Rican proposal positively; it calls for a commission—comprised of Canada, West Germany, Spain, and one Latin American country—to verify the movements of Salvadoran and Nicaraguan insurgents along Honduras's borders.

[REDACTED] the Sandinistas have praised Costa Rican efforts to give new impetus to the peace process. [REDACTED] b3

[REDACTED] Tegucigalpa hopes the plan will help Honduras rid itself of the Nicaraguan rebels and will increase pressure on Managua to comply with President Arias's peace plan. The plan also requires Nicaragua to drop its World Court case against Honduras and to reopen talks with the rebels. Honduras, however, will accept the verification part of the plan even without concessions on the suit,

[REDACTED] Honduras and Guatemala expect preliminary agreement at the meeting this week and that the accord will be sent to the UN Secretary General. [REDACTED]

[REDACTED] the UN would have to consider the plan if all five Central American countries make a formal request. [REDACTED] b3

[REDACTED] if asked, according to the Embassy. [REDACTED] b1, b3

[REDACTED] The Costa Ricans view the meeting tomorrow as an opportunity to move the Arias plan forward. Tegucigalpa apparently wants to prevent the Nicaraguan rebels from becoming a political issue in Honduras's presidential campaign, which begins on Sunday and ends in November 1989. Managua probably views the initiative as a way to improve its tarnished international image and as a device to isolate the rebels further. The Sandinistas may insist that the Central American democracies press Washington to hold talks with Managua as part of their price for accepting the Costa Rican plan. [REDACTED] b3

[REDACTED] Adoption of the plan would put the onus on the verification commission to plan the details of its activities. Implementation of such a plan, however, probably would require approval by the Central American presidents, and they are not likely to meet this year. [REDACTED] b3

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Yugoslavia

Threats To Reform Efforts

A number of factors might slow political or economic reform in the coming months. The greatest danger would come from new challenges to the political order by Serbian leader

- Milosevic, major labor and consumer unrest due to austerity measures, a rise in ethnic Albanian unrest in Kosovo Province, or a new flareup of tension between the Slovenes and the military. Such unrest could portend:

- *Return to Greater Repression.* Major ethnic or labor unrest might strengthen the hand of conservative national leaders and those in the mostly southern region who are more concerned with order and stability than with reform. These leaders probably would try to reverse progress on political and economic liberalization, at least until they were more confident of their ability to keep order.
- *Serbian Dominance.* Serbia's Milosevic may still try to manipulate popular dissatisfaction and renew Serb demonstrations to try to unseat federal leaders and to increase his own and Serbian influence. Such a move might stimulate nationalist tendencies among other ethnic groups, particularly Albanians, Slovenes, Bosnian Muslims, and Croats. Milosevic probably would respond to such resistance by increasing police measures and, despite his reform rhetoric, returning to greater central control of the economy.
- *Fragmentation.* Although unlikely, growing ethnic disputes such as those fueled by Milosevic might begin to undermine seriously the unity of the national leadership and the Army. Bitter conflicts might then ensue between the liberally oriented northern republics of Slovenia and Croatia and the federal government, leading to much greater isolation of these regions and, eventually, to a split in the country along north-south lines.

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YUGOSLAVIA:

Adopting Constitutional Amendments

The constitutional amendments Belgrade intends to enact today probably will advance economic and political reforms, but new threats to stability might slow or reverse the liberalization process.

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The amendments, although extensive, will be adopted on schedule after a long process of review and approval by the eight semiautonomous regions. They dismantle part of the Tito-era economic system and permit a greater role for market forces. They also remove constitutional obstacles to liberalized laws on foreign and domestic investment, market-oriented allocation of foreign exchange, the creation of bond and securities markets, price reform, and private business. The reforms provide for the right to strike, streamline enterprises to increase efficiency, and undercut regional interference in the financial community by increasing the regulatory role of the national bank.

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On the political side, the amendments encourage elements of Western-style democracy while leaving intact a nominal one-party state. They stipulate multicandidate elections by secret ballot for many party and government posts, although the party will still control nominations. They strengthen the authority of the Federal Assembly over the collective federal presidency. Semiofficial organizations like trade unions and the Socialist Alliance, an umbrella social organization, would become more autonomous and would have the right to contest government and party policies.

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[REDACTED] The steps toward democratization and implementation of IMF-supported economic measures are intended to promote longer term stability by stimulating sustained economic growth and by strengthening the responsiveness of government institutions. The political reforms probably will be more vigorously implemented than the economic ones. Even with such reforms, Yugoslavia will face decades of serious ethnic, economic, and political problems.

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[REDACTED] The Assembly probably will pass needed legislation to implement the most important constitutional changes in the next few months. A debate on an entirely new constitution that may be even more liberal probably will begin within the next year or so. The national party congress in 1990 is likely to change party statutes to reduce further party oversight of government bodies.

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THAILAND-CHINA: Military Relations Expanding

Thai Army Commander Chavalit signed another major arms deal during his visit to China last week and appears to be encouraging the Air Force and Navy to buy more Chinese equipment.

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Chavalit signed a new agreement for 30 Chinese main battle tanks and at least 400 armored personnel carriers. Thailand also bought spare parts for tanks and armored personnel carriers purchased earlier from China.

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The sale of fighter aircraft and submarines would mark a new level of China's military cooperation with Thailand, which has relied almost exclusively on the US for combat aircraft. Chavalit—a strong proponent of closer military ties to China—appears to be pushing the F-7 purchase because of low cost and the liberal repayment schedule, despite the past reservations of Thai pilots about the aircraft's quality. Faced with reduced US military assistance, [REDACTED] probably will concur with Chavalit's recommendation.

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The new sales are a measure of Bangkok's desire to diversify its sources of military equipment. Bangkok probably cast the initial delivery of a reserve stockpile as spare parts to allay concerns from its allies in the Association of Southeast Asian Nations as well as conservative Thai concerned about growing military relations with China.

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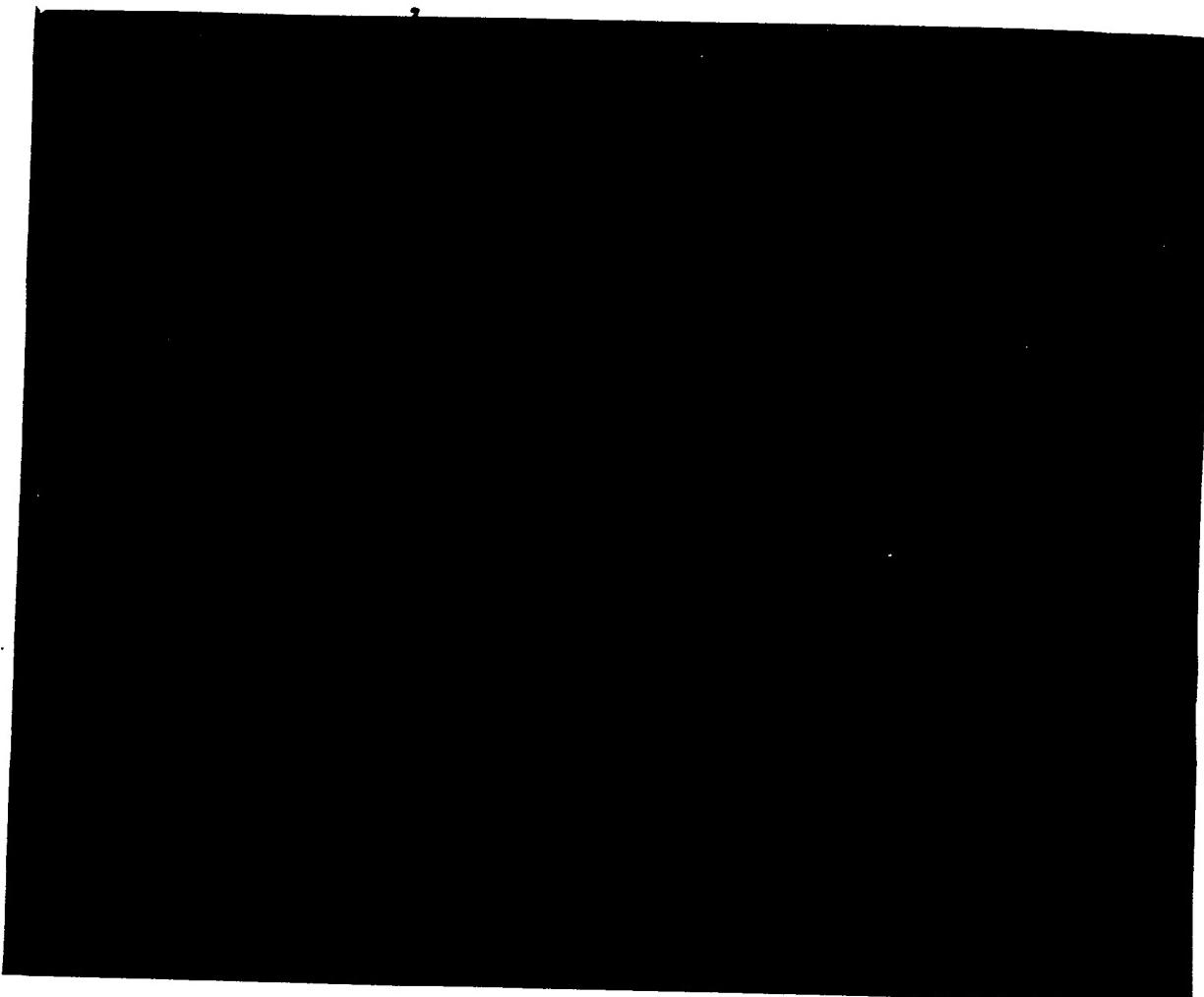
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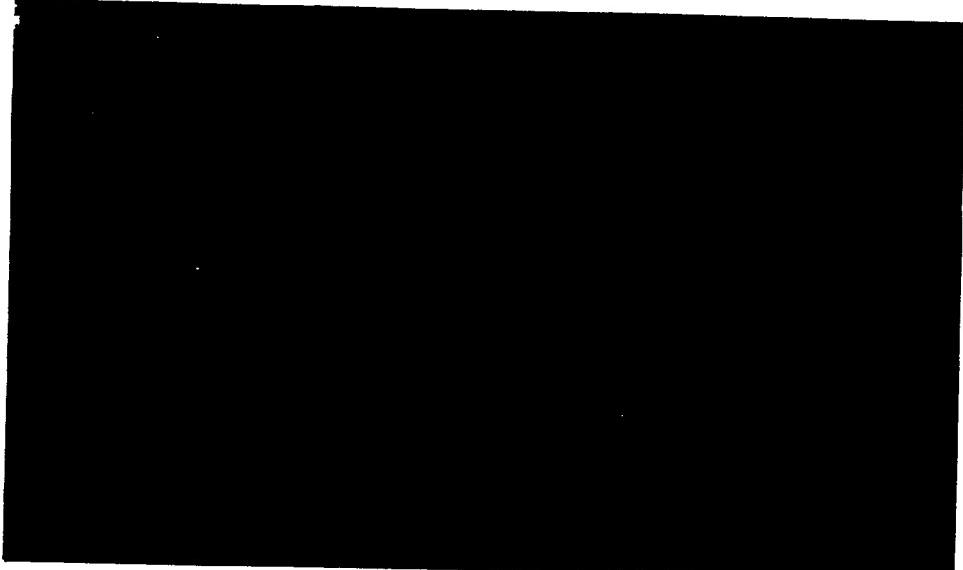
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SOUTH KOREA: Opposition Maintains Pressure

Opposition leaders have rejected President Roh's call for South Koreans to forgive former President Chun for his confessed misdeeds, insisting Chun testify next month before a parliamentary panel conducting hearings on the Kwangju Incident and on Chun-era corruption. Polls taken this week indicate that a majority of South Koreans support further investigation of Chun's actions but not his prosecution. [REDACTED] Roh may reorganize his administration as early as this weekend, replacing all ministers first appointed by Chun and removing Chun loyalists from the party leadership. [REDACTED]

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[REDACTED] The opposition is unlikely to drop its investigation of Chun as long as the public remains entranced by the hearings. Opposition leaders probably hope that keeping the issue alive will undermine Roh's effort to put the matter behind him by yearend. Roh may again appeal directly to the people, warning that prolonged hearings and radical violence might endanger his democratization efforts. He may also try to prove his commitment to reform by selecting some cabinet ministers from the opposition or possibly even a civilian as defense minister. [REDACTED]

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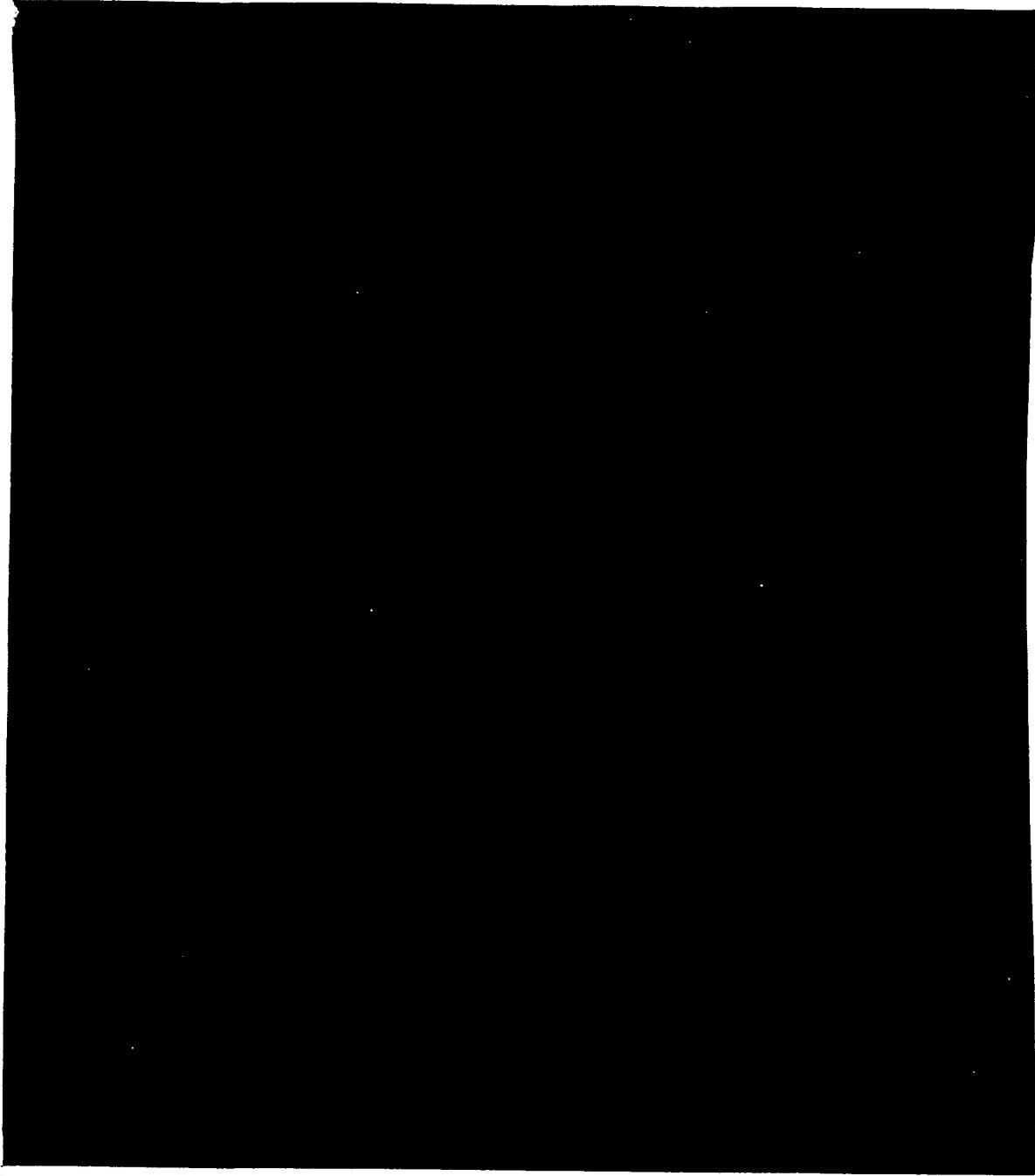
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LEBANON: Shia Infighting Stalemated

Neither Shia militia appears to have gained a distinct advantage in the recent intense fighting in West Beirut, which has resulted in more than 100 casualties so far. According to Amal and Hizballah, as of Sunday each controlled a patchwork of neighborhoods throughout West Beirut and the southern suburbs, and Syrian forces reportedly are continuing their attempts to bring the situation under control.

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[REDACTED] The lack of a clear-cut victor or of a clearly defined separation of forces makes more fighting likely. Hizballah has been unexpectedly strong outside its bastion in the southern suburbs and is not likely to give up newly won territory easily. Damascus is probably embarrassed by the outbreak of fighting in areas ostensibly under its control and will continue to press both sides toward the negotiating table. The Syrian troop convoys could be carrying reinforcements or merely replacements a few weeks in advance of the normal rotation.

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IRAN: Clerics Executed

The Iranian Government yesterday reported the execution of six clerics and three of their lay associates on corruption charges. Intelligence Minister Mohammadi-Reyshahri said they had been arrested sometime ago but were only recently tried.

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[REDACTED] The acts for which the clerics were executed probably occurred months ago, but their executions now appear to be clearly intended to send a message to those who oppose the dominant coalition that Assembly Speaker Rafsanjani leads. Radical Iranians, including Interior Minister Mohtashemi-Pur and some Revolutionary Guard commanders, have grown more aggressive recently in their attempts to undermine Rafsanjani's more pragmatic foreign and domestic policies. The three clerics may not have been as close to [REDACTED] was, but the similarity of the charges probably will lead most Iranians to link the two cases, reinforcing the public impression that Montazeri is an ineffective leader who cannot control his own entourage.

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OPEC Crude Oil Production Quotas *Thousand b/d*

Country	Production ^a (October 1988 estimates)	New Quota	
		Volume ^a	Percent ^a
Saudi Arabia	6,400	4,524	24.45
Iran	2,500	2,640	14.27
Iraq	2,600	2,640	14.27
Venezuela	1,700	1,636	8.85
Nigeria	1,400	1,355	7.33
Indonesia	1,200	1,240	6.70
Kuwait	2,100	1,037	5.61
Libya	1,200	1,037	5.61
UAE	1,900	988	5.34
Algeria	700	695	3.76
Qatar	300	312	1.68
Ecuador	300	230	1.24
Total OPEC	22,500	18,500	100

^a Columns may not total precisely because of rounding.

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OPEC: New Production Agreement Signed

OPEC members yesterday signed a new six-month agreement on crude oil production after Saudi Arabia withdrew its last-minute proposal to have members actively defend a \$15-per-barrel floor price. According to the official communique, OPEC set a new production ceiling of 18.5 million barrels per day for the first half of 1989, about 1 million b/d above the existing unofficial ceiling. The cartel also formed a monitoring committee to supervise adherence to the new quotas. The oil market was not impressed by the accord; spot prices for most crudes have remained unchanged since Friday after rising throughout most of the OPEC meeting. [REDACTED] b (3)

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[REDACTED] The major overproducers, Saudi Arabia, Kuwait, and the UAE, must cut output by a total of 4 million b/d in January to stay within their new quotas. Saudi Arabia's inability to get agreement on the \$15-per-barrel floor price suggests that other OPEC countries still resist detailed accountability and that Riyadh may quickly abandon its quota if sustained overproduction by other members becomes apparent. The UAE oil minister's contention after the meeting that the UAE's new quota was not official may also portend continued overproduction. Unless Persian Gulf countries curtail output, oil prices will fall sharply by early next year. [REDACTED] b3

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PERU: Economy Minister Resigns at Weakening of Program

b3 [REDACTED] because the economic program he had announced several days earlier was weakened at President Garcia's insistence. Last week Deputy Minister Abugattas quit after Garcia's decision to dilute the new economic package by publicly rejecting automatic exchange rate and price adjustments. Salinas has been replaced by Carlos Rivas from the party's left wing; Rivas, [REDACTED] will be a Garcia mouthpiece. [REDACTED] b3 [REDACTED] have called the economic program contradictory and incomplete, but Prime Minister Villanueva is defending it by noting that it was developed with the help of the IMF and the World Bank. [REDACTED] b3

[REDACTED] Both Salinas and Abugattas had the respect of the international financial community, and their departures probably will jeopardize prospects for an agreement with the IMF and the World Bank. The chances of implementing needed domestic economic reforms are likely to diminish with Rivas as Garcia's key economic adviser. Garcia may seize on Villanueva's statement linking the IMF to the new package to blame the developed countries for Peru's deteriorating economy. [REDACTED] b3

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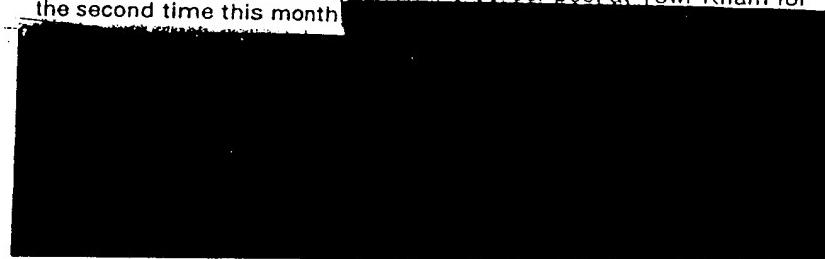
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AFGHANISTAN: Seesaw Battle for Towl Kham

Insurgent forces last week overran the border post at Towl Kham for the second time this month.

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B3 [REDACTED] Kabul will probably send additional ground forces backed by Soviet airpower to recapture Towl Kham because of its importance in slowing the Insurgent advance on the strategic city of Jalalabad. Towl Kham may exchange hands several times before the Insurgents have enough strength to hold it permanently. Insurgent success at Towl Kham and other outposts defending the highway and Jalalabad will depend primarily on regime defections rather than outright military victories. Insurgent leniency toward prisoners may hasten the regime's collapse in Nangarhar Province. [REDACTED] B3

AFGHANISTAN: Possible Members of Interim Government

B3 [REDACTED] two lists of candidates that may be used in forming a new Afghan government. One list of 16 names was drawn up by Afghan Prime Minister Sharq, and the other of 30 names had been compiled earlier by former UN envoy Diego Cordovez. Members selected from the lists—provided they are acceptable to all sides—would be asked to form a small group of wisemen, which would be a precursor to a national council or *shura*. [REDACTED] B3

B3 [REDACTED] The 46 names on the two lists are fairly moderate, mostly older officials from the pre-1978 government; many openly side with the resistance. The moderate resistance groups might be willing to use these names as a basis for working with the regime to develop a mutually acceptable list within the framework of the resistance's current proposal for the *shura*. [REDACTED] b (1) b (3)
[REDACTED] however, will argue that the lists are filled with aged, ineffective sympathizers of former King Zahir. [REDACTED] B3

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At Stake in the Hormone Ban

- US products affected by the EC ban:
 - Beef and beef byproduct exports worth more than \$100 million.

Retaliation under consideration by the US:

- Ban \$100 million in EC agricultural exports to the US.
- Ban nearly \$500 million in EC meat exports to the US on the grounds that EC health standards differ from those in the US.

EC countermeasures under consideration:

- Limit corn gluten is one possibility; EC imports from the US last year were worth \$521 million.

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b3**EC-US: Growing Dispute Over US Meat Exports**

The EC member states claim they do not want the Community's plan to ban US hormone-treated meat beginning 1 January to lead to a trade war, but they nonetheless are preparing for such an eventuality. After the US rejected an EC proposal to exempt US pet food exports and increase the quota for US high-quality beef, EC foreign ministers decided to protest in the GATT forum about potential US retaliation.

b3 [REDACTED] They also directed the preparation of a list of possible counterretaliatory measures. Corn gluten—a protein-rich corn byproduct—was mentioned at an earlier meeting as a possible target of such measures. [REDACTED]

b3 [REDACTED] The EC members still hope for a political settlement with the US, but they probably will find it difficult to craft a new compromise quickly, making unlikely major concessions on the periphery of the 9 December US-EC ministerial. There is only limited support in the EC for such options as delaying the ban, offering compensation, or agreeing to binding arbitration by GATT.

[REDACTED] **b3**

COSTA RICA-NICARAGUA: Agreement To Patrol Border

San Jose and Managua last week agreed to cooperate in repatriating Nicaraguans who do not meet international criteria for refugee status and to establish joint border patrols to stop smuggling and drug trafficking. Under the agreement, 360 Nicaraguans will be returned home today with the help of the UN, and future transfers will be arranged by the two governments.

[REDACTED] **b (1) b (3)**

[REDACTED] Managua has charged that anti-Sandinista radiobroadcasts were inciting Nicaraguans to cross the border, and San Jose agreed to end the broadcasts.

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b (3) [REDACTED] Costa Rica's willingness to deal with Managua reflects its growing fear of being overwhelmed by Nicaraguan refugees; its refugee camps are already full and its aid resources strained to the limit. San Jose probably believes that making the UN representative a third party in the arrangement to return refugees will soften any international criticism. For Managua, the agreement sets a precedent for cooperation in border control—the details remain to be worked out—that the Sandinistas could use in future talks with Honduras.

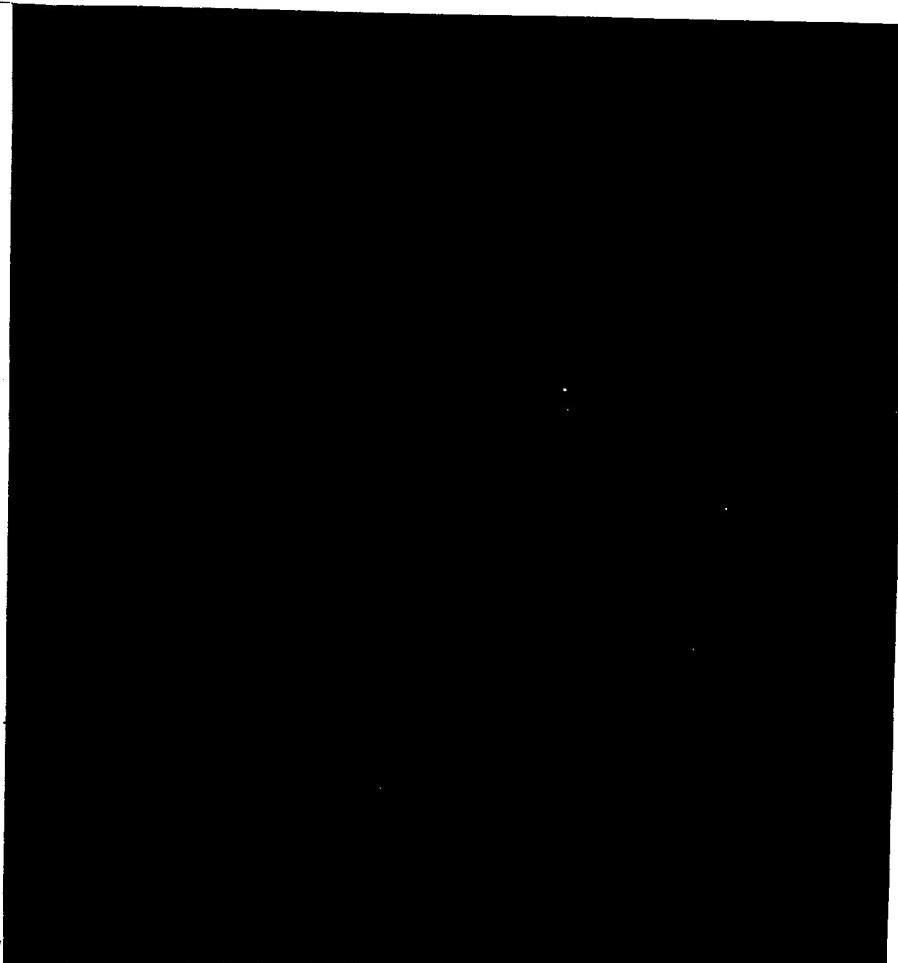
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In Brief

USSR

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Armenia, Azerbaijan remain tense, note no new violence . . . strikes continue in Yerevan, 10,000 defied curfew in Baku . . . troops keeping fragile peace. b3

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— Soviet defense attaches, Afghan resistance representatives discussed return of Soviet POWs in Islamabad Sunday, first-ever publicized meeting . . . suggests talks limited to POWs . . . talks on cease-fire, political settlement likely soon. b3

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South Asia

— Afghan resistance today reports insurgent leader Rabbani will meet with Soviet Ambassador Vorontsov in Saudi Arabia this week . . . talks likely to be exploratory . . . Soviets want agreement to facilitate safe withdrawal of their troops. b3

Americas

— Nicaragua last week devalued currency 40 percent, sharply raised fuel prices . . . official dollar rate, 10 cordobas in February when monetary reforms began, now 920 . . . black-market rate, 55 in February, surging ahead, exceeds 3,000. b3

Africa

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b3 [REDACTED] Cuban President Castro to attend Inauguration of Carlos Salinas Thursday . . . at Ecuadorian President Borja's inauguration last August . . . latest effort to expand Latin contacts, reduce regional isolation. b3

East Asia

— Nigeria, IMF near agreement on loan . . . mandated cutbacks in military spending likely to undermine support for President Babangida among key backers. b3

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[REDACTED]

— Philippine Senate last week voted to limit payments on \$29 billion foreign debt to 20 percent of merchandise exports . . . would cut payments in half . . . House version probably would allow continued payments, outlook for compromise unclear. b3

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Special Analysis

INTERNATIONAL: Increase in Palestinian Terrorism

Palestinian terrorism is likely to increase as a result of the US denial of PLO Chairman Arafat's request for a visa to address the UN and recent decisions by the Palestine National Council. Arafat himself will probably not encourage attacks outside Israel and the occupied territories but will try to be seen as a force of moderation in the hope of getting a positive reception from the new US administration.

Even before the decision on Arafat's visa, Palestinian factions outside the PLO umbrella [REDACTED]

[REDACTED] The visa denial probably will only add impetus to these plans and be used as justification for anti-US or anti-Western attacks and as proof that US and Israeli recalcitrance dooms any negotiating effort to failure.

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Palestinian factions based in Damascus publicly condemned the PNC's actions. Syria may encourage selective terrorist operations—possibly including some outside the Middle East—in the hope of disrupting PLO initiatives.

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Terrorist operations by one Palestinian faction against another are likely to increase. Several pro-Syrian factions have explicitly threatened PLO officials; the Abu Musa group, for example, announced that Arafat may meet a fate similar to that of Egyptian President Sadat. The ANO's exclusion from the PNC may also cause that group to resume assassinations of rival Palestinians—it had not carried out an anti-Palestinian attack since late 1985.

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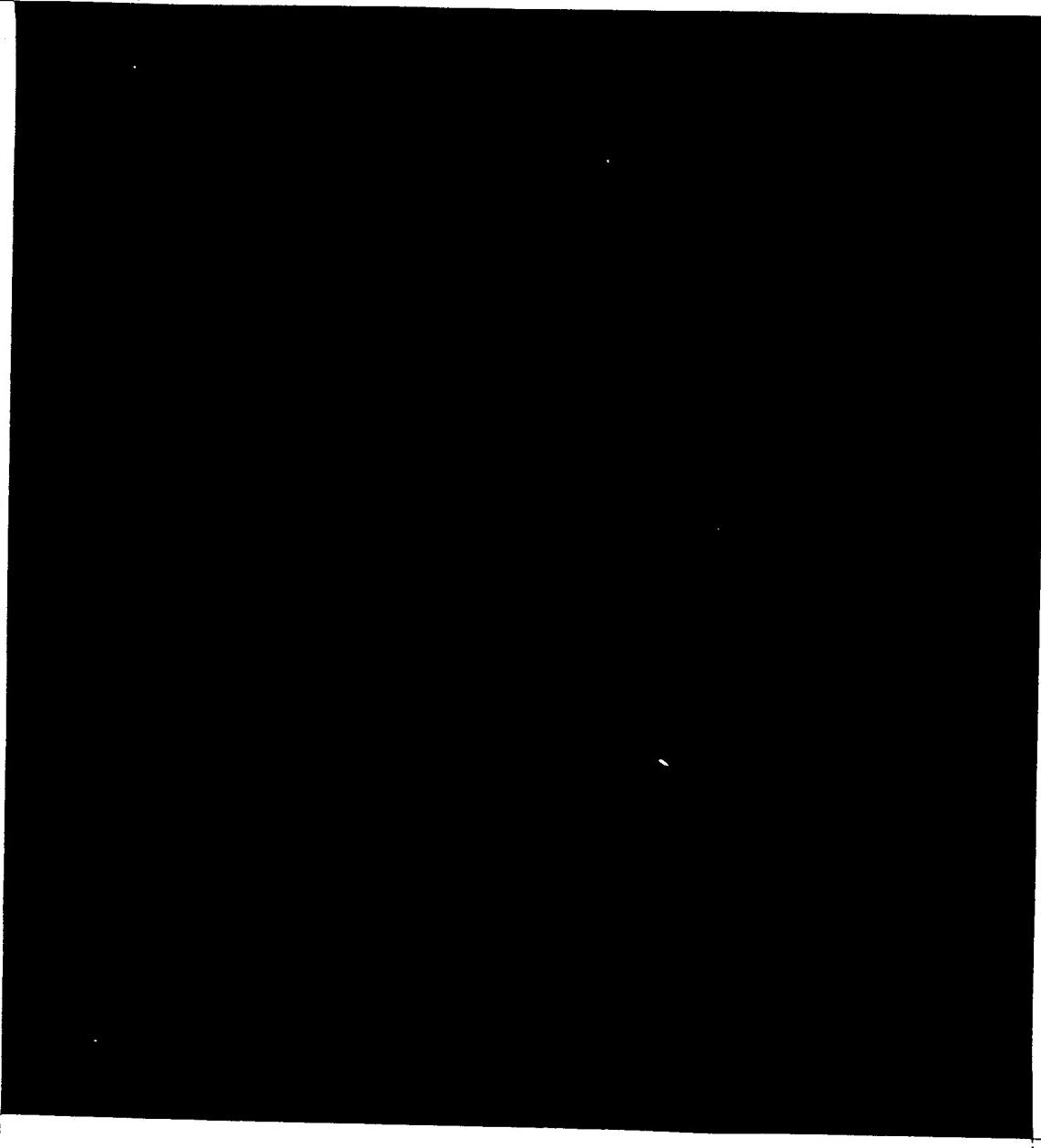
Arafat's strong base of support among Arab states and in the occupied territories will help him contain hardline dissent within the PLO during the next several weeks. A successful terrorist operation in Western Europe, however, would almost certainly erode international support and encourage PLO hardliners to break ranks. Unless Arafat can show hardliners the PLO has significantly improved its diplomatic position beyond the Arab world, he is likely to face an especially strong round of internal PLO bickering.

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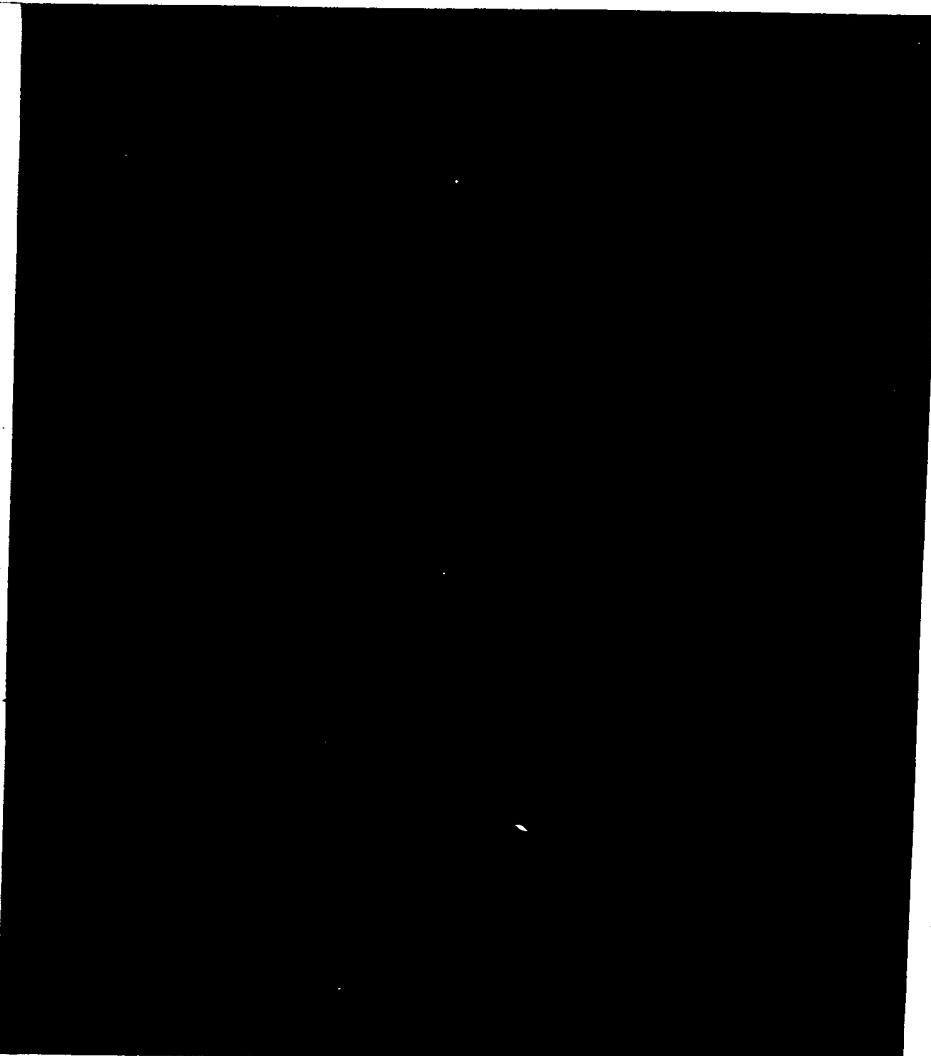
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Special Analysis

PERU:

Antidrug Progress Will Be Difficult To Sustain

The Garcia government's progress on narcotics eradication and interdiction efforts is being hampered by increasing violence against Peruvian antinarcotics workers and by growing economic and political constraints. B3

The government's 15-month-old eradication campaign in the upper Huallaga Valley—the world's largest coca-producing region—has gained momentum. [REDACTED] workers using a new cutting technique have already eradicated more than 2,000 hectares of coca this year, as compared with a total of only 350 hectares in 1987. The new technique, however, will allow the coca plants to return to full yield in 12 to 18 months. B3

The success of the campaign has provoked growing violence against antinarcotics forces in the valley. During recent months, US-supported antinarcotics elements have encountered unprecedented opposition from mobs ranging from 60 to 300 persons, some armed with guns and machetes.

[REDACTED]

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Economic and Political Constraints

Peru's rapidly deteriorating economy—its annual rate of inflation may soon reach 1,800 percent—will test the government's willingness to allocate scarce resources to fight drug trafficking.

[REDACTED]

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If Peruvian oil production drops, or if the Air Force continues to balk at ferrying oil to the Valley, there might be more frequent groundings of Peru's overused helicopters, further limiting interdiction and eradication operations. B3

Political considerations also may be weakening Lima's resolve on the eradication issue.

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Washington's failure to respond rapidly to Lima's requests for economic development projects in the Valley is heightening criticism of the antidrug efforts in the Peruvian cabinet and Congress and that eradication and interdiction campaigns may be cut back over the next year or two if they are not augmented by job-creation and training programs.

Vice Minister of Interior Mantilla—Garcia's longtime point man for antidrug efforts—recently handed over control of narcotics matters to Interior Minister Soria.

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Drug-related corruption continues to spread and, if left unchecked, may significantly blunt the effect of more substantial amounts of assistance to antinarcotics programs.

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Outlook

Increased US development assistance may temporarily bolster the position of antidrug proponents and in the short run undercut criticism of eradication and interdiction efforts. For the remaining 20 months of Garcia's term, however, counternarcotics almost certainly will take a backseat to what are perceived in Lima as more pressing economic and political issues. Halting Peru's economic slide is likely to be the government's major preoccupation, and Garcia will focus on trying to reestablish control over his government and on forestalling military intervention.

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but he will remain mindful that a strong public identification with the US on the narcotics issues would erode his populist power base.

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